



Get to know bcIMC  
and meet some people who  
care about your investments  
as much as you do.



Investment  
Management  
Corporation

ANNUAL REPORT 2003-2004

## Get to know bcIMC

We believe our theme, "Get to know bcIMC" gives focus to our disciplined investment approach, our diverse professional team and the processes and tools that enable us to confidently pursue our clients' long term investment goals.

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## Global Reach

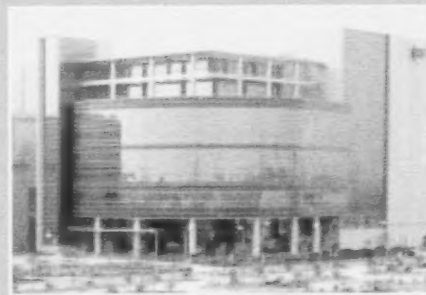
**CORPORATE GOVERNANCE TEAM** responsible for researching governance issues and voting in accordance with the best interests of our clients - left to right: Yilei, Bryan, Barb, Sheri, Marlene, Cindy

*Located at the southern tip of Vancouver Island on Canada's scenic west coast, bclMC is among the largest Canadian institutional investors in the global marketplace. Our \$62.6 billion portfolio of client assets includes almost \$19 billion in international investments, ranging from commercial real estate in London, to private equity interests in China, to public equity holdings in developed and emerging foreign markets.*

*bclMC's primary objective is to seek investment opportunities that provide our clients with the returns they require to meet their future obligations.*

*The way we do this is changing. Technology and electronic communications have created financial markets that are truly global. This has put a wide range of investment opportunities within the reach of millions more people, intensifying the competition for good-quality assets. As a result, bclMC has had to work harder than ever before, casting our net wider in the hunt for assets that will deliver the returns clients expect. bclMC is recognized for expertise in emerging areas such as China, and we continue to expand our market knowledge and capability in other high-growth areas around the world.*

*We also work hard to earn incremental returns by actively promoting high standards of corporate governance in the companies held in our clients' global equity portfolios. In 2003-2004, bclMC directly voted more than 4,100 shareholder and management proposals intended to reinforce good corporate governance and, in turn, improve investor returns. Over 3,500 of these proposals are from proxies outside of Canada.*



**INSET:** Semiconductor Manufacturing International Corporation (SMIC) is the first modern independent semiconductor foundry in China (located in Shanghai), and serves a global market. bclMC has an indirect private equity interest in SMIC.



## Tailored Strategies

**CURRENCY MANAGEMENT TEAM** responsible for the implementation of bclMC's currency overlay and hedging programs - left to right: Chris, Daryl, Steve, Randy

*In today's dynamic capital markets, investment managers must be innovative and agile to capitalize on investment opportunities as they emerge. Yet launching new products using a one-size-fits-all approach will not suit bclMC's diverse group of clients – each has different return requirements, tolerance for risk, and time horizons. This challenges us to develop investment solutions that may be customized to the varied risk-return profiles and circumstances of our clients.*

*One of the investment strategies bclMC offers to support globally diversified clients is foreign currency management. We implement currency hedging strategies to help reduce the negative impact of currency movements on the value of clients' foreign assets. In 2003-2004 the Canadian dollar appreciated almost 12% against the U.S. dollar. In response, bclMC hedged major pension clients' U.S. dollar exposure to protect their portfolios from the adverse effects of the Canadian dollar's appreciation. This added more than \$165 million in value for our clients.*

*bclMC also offers a currency overlay program to generate incremental returns from foreign currency exposure at low, controlled levels of risk. One of the attractive features of a currency overlay program is that it does not require changes to the underlying asset allocation in a portfolio because currency positions are managed independently from other investment activity.*

**+ \$24.4 million**

CURRENCY OVERLAY PROGRAM  
(inception Feb 03)

**+ \$165.7 million**

CURRENCY HEDGING PROGRAM  
(inception Aug 03)





## Seeking Long Term Value

**REAL ESTATE TEAM** responsible for the investment management of bclMC's global real estate portfolio - left to right: Brian, Chuck, Carl, Owen, Vivian, Chris, Pip

*Looking at investment options today, we know the landscape has changed. In the 1980s and 1990s, our clients enjoyed strong returns from traditional investment strategies - a balanced Canadian fund of bonds and stocks routinely returned over 10% annually.*

*In today's low interest rate environment, that same balanced portfolio might have an expected return of only 6% annually. Therefore, we must broaden our focus to meet client return expectations by seeking alternative investment opportunities. bclMC is a keen and capable investor in alternative assets - offering patient capital that will grow consistently with the companies and assets in which we invest.*

*bclMC's investment in the Broadway Technology Centre (BTC) through our real estate fund, Realpool, is an illustration of this search for long term value. This 17-acre, 8-building site, in a former industrial area of Vancouver, provides modern, wired space targeted at the city's growing number of high-technology firms.*

*BTC won the 2002 National Association of Industrial and Office Properties Real Estate Excellence Award for Comprehensive Development and the 2002 Urban Development Institute Award for Excellence. bclMC expects that, upon completion, BTC will prove to be an attractive and profitable real estate investment for clients.*



**INSET:** Broadway Technology Centre



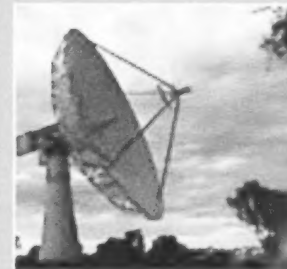
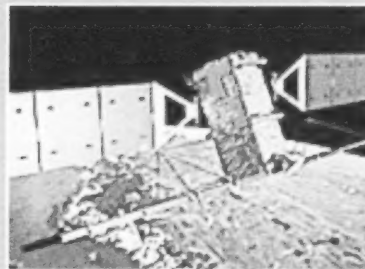
## Recognizing Opportunities

**PRIVATE PLACEMENTS TEAM** members responsible for the investment management of bclMC's global private placements portfolio - left to right: Randall, Richard, Neil, Bob

*MacDonald Dettwiler & Associates (MDA), an information services technology company headquartered in Richmond, British Columbia, develops custom-built software systems used in mission-critical applications such as defence and robotics. It also collects information from satellites, aerial photography and land registry databases and sells it to governments, businesses and individuals.*

*Since bclMC's initial investment in December 1999, MDA has achieved impressive growth and reached significant milestones, including an initial public offering in July 2000. Over the period from 1999 to the end of 2003, MDA's annual revenue has grown steadily, more than doubling from \$298 to \$626 million.*

*bclMC's private equity investment in MDA has realized an excellent return. We are pleased that our clients have benefited from MDA's business success and the resulting increase in the value of the company.*



**INSET:** MDA, one of bclMC's most successful private equity investments, develops information products and systems, such as RADARSAT-2, the world's most advanced commercial high-resolution radar satellite.



## Investing in People and Technology

**LUCY EDWARDS**, bclMC equity trader, initially joined bclMC as a work-study student in Simon Fraser University's Global Asset and Wealth Management MBA program

*Investment management requires skilled professionals and constant investment in automation and technology to boost investment returns and cost efficiency. bclMC's high level of employee retention gives us extensive industry experience and client knowledge. This allows us to achieve strong investment performance and high service standards that clients can rely upon over time. We also keep pace with change by encouraging and supporting employee professional development efforts, and recruiting experienced external candidates.*

*bclMC capitalizes on opportunities to guide the industry's next generation of investment specialists. Each year, we sponsor students for work-study terms from the Global Asset and Wealth Management MBA program at Simon Fraser University, as well as the Sauder School of Business Portfolio Management Foundation program at the University of British Columbia. bclMC also provides opportunities for University of Victoria and local college participants in work experience programs. Last year, bclMC extended an offer of permanent employment to two people who had previously completed a student work term with us.*

*Over the last year, bclMC's Investment Accounting Branch implemented a number of new automated accounting processes and was also involved in the evaluation and selection of a global custodian. This process delivered enhanced technology systems, and electronic access to data maintained by the custodian.*



**INSET: INVESTMENT ACCOUNTING TEAM** - seated left to right: Cathy, Don, Monique; standing left to right: Keith, David, Larry, Thomas, Henry, Mike



## Managing Risk

Team that completed the first trade on bcIMC's new Trade Order Management System - left to right: Shauna, Patrick, Debbie H., Lucy, Debbie A.

*At bcIMC, everyone manages risk every day. From balancing investment risks and returns for our clients to monitoring factors that affect operational efficiency, each bcIMC employee is responsible for managing risks within their control.*

*We take an enterprise-wide approach to risk management, addressing market, credit, legal, operational and environmental risk factors in all areas of bcIMC's operation and all facets of our service delivery.*

*In general, investors are compensated with higher returns for taking more market and credit risk. However, there is no similar reward for exposure to legal, operational and environmental risks. Accordingly, our goal is to identify emerging risks and take steps to ensure these risks are minimized. In this way, we can protect invested funds, pass on lower costs to our clients, as well as help ensure the continuity of our business.*

*Last year, following a review of the operational risks and management strategies in each bcIMC department, we developed a formal framework to ensure bcIMC's operational risk management practices remain current and robust.*



*continued*



**ENTERPRISE-WIDE RISK MANAGEMENT COMMITTEE** members - left to right: Chuck, Daryl, Lynne, David

*bclMC is highly reliant on secure electronic technologies for communication and operations. Our team of IT systems experts helps us manage our IT network and apply pre-emptive strategies against threats to the security of our data and systems.*

*bclMC's current focus is on implementation of the new Trade Order Management System (TOMS). The system will automate and streamline trade and investment compliance processes and enable bclMC to improve our risk management by achieving straight-through processing and pre-trade compliance. TOMS is one of the largest and most complex corporate projects bclMC has ever undertaken and more than a quarter of our employees have helped research, select, test and implement the system.*



**INSET: IT SECURITY TEAM** - left to right: David K., John, Chris, David J.



## Who is bclMC?

*British Columbia Investment Management Corporation (bclMC) provides professional funds management services for more than 375,000 public sector pension plan members and numerous public agencies in British Columbia.*

Located in Victoria, British Columbia, we have 98 staff dedicated to seeking the highest investment returns that suit the time horizon and risk tolerance of each of our 47 client organizations.

Each client fund has a unique set of investment priorities and circumstances, so choice and flexible service delivery are essential. We have approximately 40 pooled funds available for client investment, which cover eight major asset classes.

bclMC is one of Canada's largest investment managers, with more than \$62 billion in assets under administration.

We were established in November 1999 under the *Public Sector Pension Plans Act*.

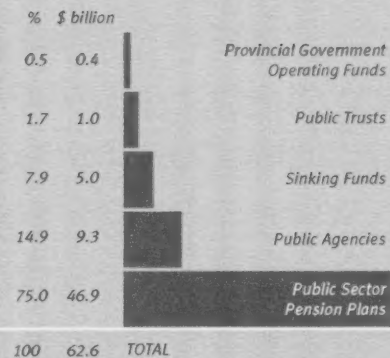
For more information about bclMC, please visit our website at [www.bcimc.com](http://www.bcimc.com).

### Our Mission

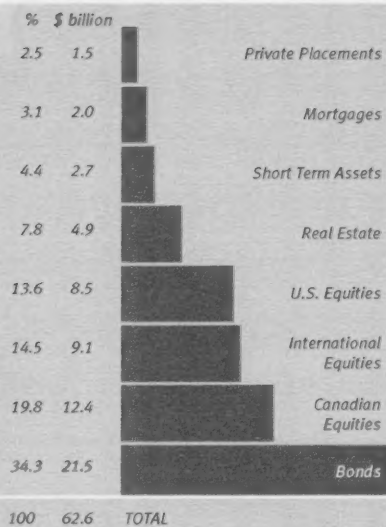
*Accountable to our clients, to provide professional fund management for all asset classes, exercising the highest standards of prudence and fiduciary responsibility, while returning to the client the highest return for a given level of risk, at a reasonable cost.*



### Client Profile AT MARCH 31-2004



### Assets Under Administration AT MARCH 31-2004





## Chair's Message

Chris Trumpy, Chair

*Managing money is bclMC's mission and sole focus. Our careful stewardship of clients' assets lets them attend to their own priorities – assured that their assets are at work in a cost-effective manner to generate the returns they require, at a level of risk they are comfortable with.*

bclMC is not a one-size-fits-all manager. Clients are able to select from a range of investment products to meet their unique needs, while benefiting from reduced cost through our pooled fund structure. This provides large and small clients alike with access to innovative products and diversified portfolios not always available or cost-effective with stand-alone, in-house management. Several new clients and funds established portfolios with us in 2003-2004, including the Interior Health Authority, and the pension plans of the BC Transmission Corporation and the Insurance Corporation of British Columbia. bclMC also received expanded investment mandates from a number of existing clients. These new and expanded mandates reflect the value we bring to our clients.

## Risk Management

Conditions in capital markets have improved markedly in the last year.

Investor confidence returned, along with a willingness to accept greater amounts of risk. As a result, equity returns have swung from sharply negative to positive which is good news for pension plans with diversified portfolios. However, at a macro economic level, risk remains. Large fiscal, trade and payments imbalances and misaligned exchange rates among the world's major economies, combined with high levels of consumer debt, suggest that difficult adjustments may lie ahead. This highlights the importance of risk management.



Since bclMC's inception, our risk management has been focused primarily on market risk, managed through portfolio diversification strategies and various financial instruments. During the last year, the bclMC Board turned its attention to operational risk management. In September 2003, the Board reviewed bclMC's Operational Risk Management Framework – a systematic plan designed to ensure bclMC's practices remain effective across the organization. Over the coming year, bclMC management will implement additional oversight and controls identified in the application of the framework.

Operational risk includes risks related to human behaviours and in 2003-2004, the Board approved a new Code of Conduct for bclMC employees. The new code reinforces to employees the need to identify concerns about operational procedures, as well as to carry out their work with the values and principles of high ethical and professional conduct. Sections of the code are derived from the best practices of our industry peers, and from the Code of Ethics and Standards of Professional Conduct of the Association for Investment Management and Research (AIMR). bclMC will re-assess the Code of Conduct periodically to ensure that it remains an appropriate guide for employee decisions and actions.

#### **Governance**

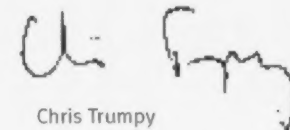
Governance continues to be an important theme in the investment world and another element of risk management. The report on pages 25-26 sets out the governance practices of the bclMC Board relative to the Toronto Stock Exchange's guidelines for listed companies.

It is important for corporate boards to examine their own performance, as well as the organization they govern. bclMC's Board conducted a self-evaluation last year and directors determined they are effective in carrying out their functions, and are generally pleased with the information and analysis provided by bclMC employees.

#### **Acknowledgements**

On the front cover, the invitation is made to "Get to know bclMC". Throughout this report, we are certain you will gain insight into how bclMC creates value for clients. The dedication and varied talents of our employees is core to bclMC's success and I would like to thank the bclMC team for its hard work in understanding and meeting clients' needs during 2003-2004. I also congratulate our clients for keeping a steady hand during the market turbulence of the last four years.

During the year, Ed Pakos' term as a director expired and, on behalf of the Board, I extend my appreciation to Ed for his contributions to the governance of bclMC. We welcome as a new director John Johnston, Vice President of Human Resources for the Vancouver Island Health Authority.



Chris Trumpy  
Chair



**Report by the  
Chief Executive Officer  
Chief Investment Officer**

Doug Pearce, CEO/CIO

*This is bclMC's fourth year of operation as a corporation.*

*I appreciate the support of our clients, our Board and our employees during the recent period of market turbulence.*

This was a challenging period in which to create a skilled, energetic, service-oriented organization focused on achieving high returns while managing risk at acceptable levels. Repositioning bclMC required investments in people and technology during a period of low returns - a difficult balancing act. We think we have it right.

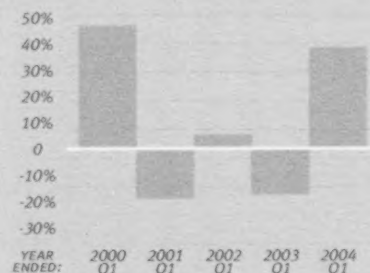
Looking ahead, market conditions have improved, and we eagerly anticipate increasing the long term value of clients' funds.

**A Better Year**

Since the start of the decade, equity returns have declined and fixed income yields have dropped to historically low levels. In these four years, bclMC's annual return on a balanced portfolio of pension plan assets ranged from 18.4% in fiscal 2000 to -9.4% in fiscal 2003. Conditions in capital markets improved markedly last year and the annual return for a typical bclMC pension client was almost 22% in fiscal 2004.

Investment performance is generally measured against benchmarks of market-traded or liquid assets. On this basis, in 2003-2004 bclMC generated a return of nearly 25% on our portfolio of pension assets, matching the liquid asset benchmark. During its four years of operation, bclMC has added significant value for our pension clients.

**Equity Market Recovering  
TSX TOTAL ANNUAL RETURN**



### Canadian Proxy Voting Record 2003-2004

ISSUE	Number	% Voted For	% Voted Against
Election of Boards of Directors	253	67	33
Appointment of Auditors	220	85	15
Executive Compensation Plans	76	18	82
Takeover Protections	23	70	30
Shareholder Rights	84	50	50
<b>TOTAL</b>	<b>656</b>	<b>65%</b>	<b>35%</b>

Most of our asset classes produced strongly positive returns in 2003-2004 and bclMC's pooled funds generally met or exceeded benchmark returns. The Specialty Mortgage, U.S. Equity Derivatives, Asian, Enhanced Canadian Equity and Realpool Funds showed particularly strong performances against their benchmarks. The annualized performance of bclMC's pooled funds is presented in the tables on pages 22-23.

The appreciation of the Canadian dollar had a major impact on Canadian investor returns last year. As the uptrend in the dollar became evident early in 2003, bclMC began hedging clients' U.S. dollar exposure. Compared to an unhedged portfolio, this generated more than \$165 million in value for clients. bclMC's currency overlay

program, which started as a pilot project in February 2003, delivered strong returns of more than \$24 million, with low levels of risk.

### The Best Interests of Our Clients

On behalf of our clients, bclMC holds shares in approximately 2,400 publicly traded companies around the world. These significant share holdings carry important proxy voting responsibilities. Accordingly, with all shareholder proposals, bclMC researches the governance issues and strives to vote in the best interests of clients. We believe that thoughtful voting can strengthen corporate governance and, in turn, improve investor returns.

In 2003-2004, bclMC directly voted more than 4,100 shareholder and management proposals on issues as diverse as board independence, the appointment of auditors, management compensation, severance and stock options, take-over offers, fair employment practices and environmental sustainability. bclMC's Corporate Governance and Proxy Voting Guidelines, which can be found on our website at [www.bcimc.com](http://www.bcimc.com), are intended to convey to the companies in which we invest how bclMC is likely to vote on issues put to shareholders.

In 2003-2004, bclMC joined the Canadian Coalition of Good Governance (CCGG) as a

full member, having previously held observer status. The CCGG promotes high standards of corporate governance to improve the performance of publicly-traded corporations across Canada.

### Our Strategic Priorities

bclMC's three-year Service Plan, established annually by management under the direction of our Board, sets out our priorities and action plan for meeting our mandate in coming years. We post our Service Plan at [www.bcimc.com](http://www.bcimc.com).

In addition to the achievements described throughout this annual report, the table on page 15 is a summary of bclMC's performance against the business objectives and initiatives described in our 2003/2004 – 2005/2006 Service Plan.

### US Proxy Voting Record 2003-2004

ISSUE	Number	% Voted For	% Voted Against
Election of Boards of Directors	951	65	35
Appointment of Auditors	612	92	8
Executive Compensation Plans	573	20	80
Takeover Protections	31	42	58
Shareholder Rights	631	56	44
<b>TOTAL</b>	<b>2,798</b>	<b>59%</b>	<b>41%</b>

## International Proxy Voting Record 2003-2004

ISSUE	Number	% Voted For	% Voted Against
Election of Boards of Directors	129	90	10
Appointment of Auditors	107	75	25
Executive Compensation Plans	144	63	37
Takeover Protections	3	67	33
Shareholder Rights	285	80	20
<b>TOTAL</b>	<b>668</b>	<b>78%</b>	<b>22%</b>

### What's Ahead?

For the first time in three years, the world economy appears to be on sound footing. Growth has picked up and is no longer solely dependent on the U.S. locomotive. Corporate profits have increased and stock prices are rising. Price stability appears to have been achieved in most of the G-7 countries.

bclMC has a generally positive economic outlook for the next year. We expect stocks to do reasonably well on the strength of higher profits, while we think that fixed income (bonds, mortgages) and real estate have likely seen their best returns. Currency flows and exchange rate movements will affect how bclMC tactically manages client asset allocation strategies.

Interest rates remain low in most industrial countries, but this could change as growth accelerates. If so, consumer spending, real estate, and mortgage markets in the United States could be affected by high debt levels and rising interest costs. Some countries have significant fiscal and trade imbalances, which is resulting in large cross-border capital flows and a significant re-alignment of exchange rates. For Canada, the lagged effects of the appreciation of the dollar in 2003 may affect economic growth and corporate profits. We will be keeping a close watch on the various risks we see over the coming year, and steering accordingly.

### Facing New Challenges

Our longer-term view is that it will be difficult to harvest predictable returns sufficient to fund pension clients' liabilities solely by investing in traditional assets. How will bclMC respond to the changing investment environment?

We plan to meet clients' needs by:

- ~ Being innovative and aggressively pursuing opportunities.
- ~ Spotting longer-term value before others.
- ~ Cultivating our network of strategic partners in the search for investment opportunities.
- ~ Building our team within and across disciplines and organizational boundaries

to respond to new and alternative investment opportunities.

- ~ Providing a high standard of service and being at the top level of our business.

On a broader level, bclMC will advance client interests by engaging in industry discussions on future directions of investment management, particularly pension investment management. The many changes in accounting, auditing, taxation, market regulation and corporate governance also require us to stay on top of developments and inform policy makers on the consequences of their decisions for our clients.

### Acknowledgements

After several difficult years, the investment world has regained its footing. I thank our clients for their confidence in us. I would also like to acknowledge my pride in the dedication and hard work of bclMC's employees and to thank them for their efforts during 2003-2004.



Doug Pearce  
Chief Executive Officer  
Chief Investment Officer



## Service Plan Objectives and Achievements

Objective	Status	Results Expected
<b>Investment Returns</b>		
Broaden our line of enhanced index pooled funds	Enhanced Canadian fund launched, others under development	Higher returns
Develop our market knowledge, local network of service partners and suppliers in high-growth economies such as China	Underway	
Expand our program to include alternative investments such as infrastructure	Underway	
<b>Risk Management</b>		
Assess enterprise-wide operational risks	Complete	Reduced risk
Move to pre-trade versus post-trade compliance	Underway	
Begin market risk project to identify, assess and enhance management of market risks	Underway	
Explore the costs and benefits of a market risk measurement system	Underway	
Explore custodian abilities to enhance controls and automate processes	Complete	
<b>Human Resources</b>		
Support professional development	Ongoing, with significant accomplishments last year	Improved leadership abilities, professional skills and key person retention; reduced risk
Develop succession plan for key employees and career path for strategic employees		
Deliver in-house training		
<b>Systems Infrastructure</b>		
Implement new private placement system	Underway	Lower costs; reduced risk; higher returns
Implement trade order management system	Equities complete	
Explore costs and benefits of a data warehouse	Complete	
<b>Communications</b>		
Develop employee Intranet site	Complete	Better informed stakeholders
Develop Extranet site for Board	Underway	
Implement investment accounting process changes to provide timelier reporting to clients	Underway	
<b>Cost Effectiveness</b>		
Select best value-for-money research, portfolio management tools and services	Ongoing, with significant accomplishments last year	Lower costs

## Our Investment Approach and Portfolio Performance

*bclMC provides investment management services for almost 50 client organizations, with portfolios ranging in size from a few hundred thousand dollars to pension funds with billions of dollars.*

Each client has different investment objectives and policies. Some clients are primarily concerned with liquidity, while others typically have a long term investment return target that will allow them to meet pension or various other obligations.

The primary investment vehicles bclMC offers its clients are pooled investment funds. Clients buy or sell units in the pools rather than the underlying securities. Pools range from short term money market funds, to equity derivatives, to private placements, to real estate. The pooled fund structure provides economies of scale, allowing large and small clients alike to obtain a more diversified portfolio at lower costs than by investing individually.

bclMC provides advice on asset allocation and asset-liability management as part of our service to clients. Clients decide on a strategic allocation to the major asset classes (e.g. 50-55% in stocks, 30-35% in fixed income, 10-15% in real estate, up to 10% in private placements), which will depend on their investment objectives, time horizon, and risk tolerance.

Clients with short time horizons typically invest in shorter-term fixed income pools to meet their need for liquidity and low levels of market risk, while clients with a long term focus generally allocate their funds across the full range of bclMC investment products.

bclMC investment managers implement strategic allocations to the various investment pools on behalf of clients. Frequent tactical adjustments are made for clients to ensure that market movements do not push allocations away from the strategic targets they have set.

## Fixed Income Securities

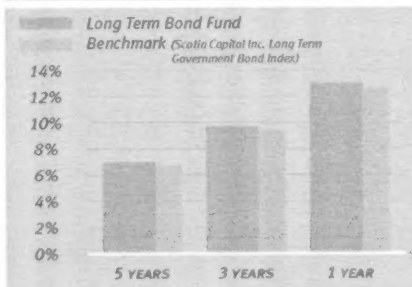
*Fixed income securities provide steady cash flows and tend to offset the volatility of equities. Having greater certainty of income, they are a core element of any diversified portfolio.*

bclMC offers clients pools that include Canadian federal and provincial government short and long term securities, higher-quality corporate securities, and bonds backed by multilateral agencies such as the World Bank. Clients with inflation-sensitive liabilities also hold real-return bonds issued by the Government of Canada. bclMC manages these securities on a segregated basis. Last year, the returns on bclMC's five bond pools ranged from 7.8% on the Short Term Bond Fund to 13.0% on the Long Term Bond Fund.

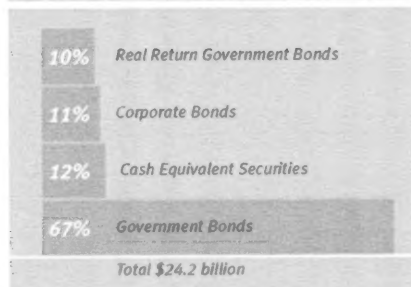
In addition to the bond pools, bclMC's Fixed Income Department manages currency overlay and currency hedging programs for participating clients.

In 2003-2004, the Department installed a fixed-income attribution system to help determine the source of fixed income returns, as well as expanded its use of electronic trading platforms for fixed income and foreign exchange.

### Long Term Bond Fund Performance (ANNUALIZED RETURNS)



### Portfolio of Fixed Income Assets



## Mortgages

*Institutional investors such as pension funds favour commercial mortgages because they provide stable and predictable cash flows with superior returns to government bonds of similar duration, although at reduced liquidity and greater credit risk.*

bclMC's three mortgage pools are diversified by loan type, geography and product type, giving investors choice by liquidity, duration and risk-return expectations. Last year, the returns of the mortgage pools ranged from 6.4% to 10.9%. They each exceeded their benchmark returns by at least 60 basis points, continuing the record of consistently strong returns since bclMC's mortgage program was introduced in 1995.



In 2003-2004, demand for mortgages was strong in Canada with housing starts remaining at decade-high levels. The mortgage-lending environment continued to be highly competitive with financial institutions aggressively bidding for business. bclMC underwrote more than \$500 million of new mortgage product in 2003-2004, up from \$400 million the previous year. Our Specialty Mortgage Fund more than doubled its funded mortgages (total fund size was \$50 million at fiscal year end).



TD Centre, a premier office tower in downtown Winnipeg, is included in bclMC's Fixed Term Mortgage Fund.



## Public Equities

*Equities offer higher long term returns than fixed income securities, but at a cost of greater short term price volatility.*

bclMC manages 15 equity pooled portfolios, with diversification by geographic markets and investment styles such as "value" and "growth".

Our in-house professionals manage approximately 55% of the \$30 billion in client equity holdings, including all our indexed funds and a portfolio within the new Canadian enhanced index fund. March 31, 2004 marked the first full year of operation for our Enhanced Canadian Equity Fund, which outperformed its benchmark over this period by 100 basis points. The Fund combines two externally-managed enhanced index portfolios with bclMC's own internally-managed portfolio. Following on this successful launch, bclMC will continue to expand our range of risk-controlled, enhanced index products.

Nineteen investment firms manage our active public equity pools, comprising the remaining 45% of clients' equity holdings.

In general, bclMC believes that an indexed approach better suits investment in the more efficient developed-country markets, while active managers with better access to local information are more likely to produce superior returns in less efficient emerging markets.

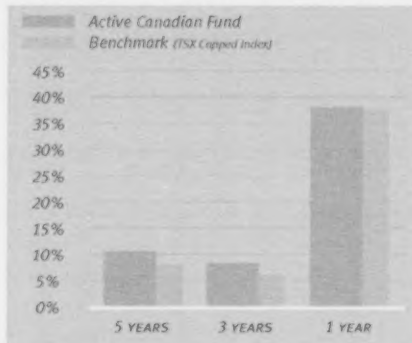
2003-2004 was a strong year for equity returns, although the market was led by lower-quality companies with weak balance sheets, uncertain earnings outlooks and high volatility. In general, bclMC's equity pooled funds performed well.

In response to client requests for greater flexibility, bclMC's Equity Department restructured both the EAFE and Europe pools in 2003-2004. Clients can now allocate funds to either indexed or active management of these markets, as desired.



Jeff and Mike, members of bclMC's **EQUITY TEAM**, are developing enhanced index products for U.S. and international markets.

### Active Canadian Fund Performance (ANNUALIZED RETURNS)



## Private Placements

*bclMC makes private equity and debt investments in companies requiring capital for start-up, expansion, new development, restructuring or change in ownership.*

Most of bclMC's private placement investments are made alongside like-minded investors through limited partnerships managed by external firms. These investments require in-depth knowledge of specific economic sectors, industries, products and firms. Our entire private equity portfolio consists of 13 pooled funds, 95 limited partnerships and 7 direct investments.

Historically, private placements have outperformed public equity securities. However, they have higher risk and can take 8 to 10 years to realize their full returns. In the

early years, management expenses are incurred in selecting investments, completing due diligence, and negotiating investment terms. Consequently, returns are initially negative or low. Positive returns materialize as investments mature. This long term investment horizon makes it difficult, if not impossible, to find a market benchmark that is indicative of private placement returns. bclMC generally assesses its private placement performance over the life of the respective funds and uses a 10-year annualized return as the pooled funds' benchmark.

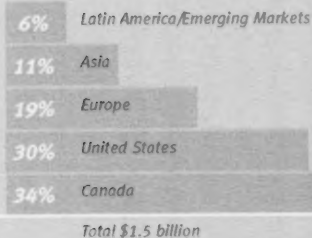
In 2003-2004, bclMC's new investment in private placements totaled approximately \$386 million across ten investment funds - \$286 million was targeted to Canada, \$84 million to the U.S., and \$16 million to Europe. The new capital was committed to buyout investments, growth capital, venture capital and infrastructure investments.

During the last year, bclMC reorganized its Private Placements Department to better respond to investment opportunities.

A new direct investments team was created within the Private Placements group to strengthen deal flow and enhance our research and investment capabilities regarding direct investment opportunities, including infrastructure opportunities.

Also in 2003-2004, members of our Private Placements Department were involved in identifying, evaluating and selecting a vendor to provide a new IT system to support analysis and reporting of bclMC's private equity investments. The new system will be implemented during 2004-2005.

### Geographic Distribution of Private Placement Portfolio



*OctigaBay Systems Corp., a small Vancouver firm in which bclMC has an indirect private equity interest, successfully developed an innovative high performance computing (HPC) system or supercomputer. The company was acquired in 2003 by Cray Inc., and bclMC anticipates realizing an excellent return on this investment.*

## Real Estate

*Real estate is a hybrid investment with risk-return attributes between those of bonds and equities.*

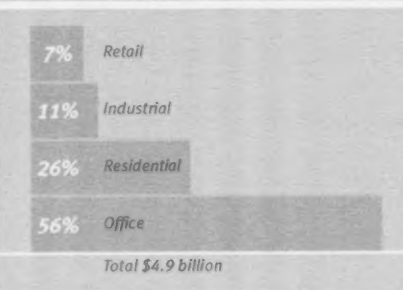
It has a fixed income component in the form of contractual rents and an equity component in the value of the land and buildings. Real estate diversifies an investment portfolio, generates relatively stable cash flow, and usually appreciates over long periods of time in step with inflation. This makes it a partial hedge for liabilities linked to inflation.

bclMC invests in high-quality Canadian real estate, including office and apartment properties, with smaller holdings of industrial, retail and mixed-use properties. We also invest directly in foreign opportunities and in real estate funds with investments in the United States, Europe and Asia. On a global basis, bclMC's clients own approximately 27 million square feet of rentable office, industrial and retail space and nearly 13,000 multi-family residential units.

In 2003-2004, our Canadian real estate fund, Realpool, acquired an apartment complex, a business park and a distribution centre in metropolitan Vancouver, and invested in a partnership with a Calgary developer and

home-builder. Realpool was also active in the development of two residential properties in Western Canada: a 189-suite high-rise development project in the Yaletown district of Vancouver scheduled to open during the summer of 2004; and two mid-rise towers with 227 suites in Calgary's Mission residential district, scheduled to open in spring 2005. Abroad, Realpool committed U.S. \$25 million to a partnership that invests in the junior debt of full-service hotels in the United States.

### Property-Type Distribution of Real Estate Portfolio



Acquisition activity was slower in 2003-2004 due to a limited supply of quality investment offerings and greater competition from well-capitalized real estate investment trusts (REITs), leveraged buyers (who took advantage of historically low interest rates) and foreign investors. bclMC's Real Estate Department is responding to this challenge by more aggressively seeking deals, increasing bclMC's share in co-investments, investigating alternative real estate investments and maintaining underwriting discipline.



MCI Building in Reading, England. bclMC has an ownership interest in this commercial property through a global real estate fund.

**Pooled Fund Annualized Returns - Fixed Income**  
PERIODS ENDING MARCH 31, 2004

	10 YEARS	5 YEARS	3 YEARS	1 YEAR
<b>Short Term</b>				
Short Term Fund 1	4.5	3.9	2.9	2.8
SCI 30 Day T-Bill	4.3	3.8	3.0	2.8
Short Term Fund 2	4.8	4.1	3.2	3.0
SCI 91 Day T-Bill	4.6	4.0	3.1	3.0
Short Term U.S. Fund 3	4.0	0.6	-4.3	-10.0
Salomon Smith Barney 30 Day T-Bill	3.4	0.2	-4.3	-10.0
Short Term Bond Fund		6.5	6.8	7.8
SCI Short Term Government Bond		6.4	6.8	7.8
<b>Mortgages</b>				
Fixed Term Mortgage Fund		8.3	8.7	10.0
SCI Short Term bond + 1%		7.7	8.1	9.4
Construction Mortgage Fund		7.0	8.0	8.4
SCI 1 Year T-Bill + 1%		5.8	5.3	5.4
Specialty Mortgage Fund			9.7	10.9
SCI 1 Year T-Bill + 2.5%			6.8	6.9
<b>Bonds</b>				
Indexed Government Bond Fund	8.7	6.9	8.1	10.2
SCI Government Bond	8.6	6.8	8.1	10.1
Pension Bond Fund		7.0	8.3	10.5
SCI Government bond		6.8	8.1	10.1
Long Term Bond Fund		7.0	9.7	13.0
SCI Long Term Government Bond		6.8	9.4	12.7
Corporate Bond Fund	9.3	7.6	9.1	11.9
SCI Corporate Bond	9.3	7.4	9.0	12.7
<b>Sinking Funds</b>				
BC Hydro Sinking Fund	8.0	7.0	8.3	9.7
BC Hydro Sinking Fund Benchmark		6.7	7.9	9.3
BC Direct Debt Sinking Fund		7.0	8.4	10.1
BC Direct Debt Sinking Fund Benchmark		7.3	8.4	9.9
BCBC Sinking Fund		6.7	8.4	10.4
BCBC Sinking Fund Benchmark		6.7	8.3	10.1



**Pooled Fund Annualized Returns - Equities & Real Estate**  
PERIODS ENDING MARCH 31, 2004

	10 YEARS	5 YEARS	3 YEARS	1 YEAR
<b>Canadian Stocks</b>				
<i>Indexed Canadian Equity Fund</i>	9.5	7.5	6.3	37.5
<i>S&amp;P/TSX Composite</i>	9.0	7.1	6.0	37.7
<i>Active Canadian Equity Fund</i>	11.0	10.8	8.4	38.2
<i>S&amp;P/TSX Capped</i>	9.5	8.1	6.1	37.7
<i>Enhanced Canadian Equity Fund</i>				38.7
<i>S&amp;P/TSX Composite</i>				37.7
<b>U.S. Stocks</b>				
<i>S&amp;P 500 Fund</i>		-3.8	-5.4	20.5
<i>S&amp;P 500</i>		-4.0	-5.4	20.5
<i>U.S. Value Index Fund</i>			-3.2	36.1
<i>S&amp;P/Barra Value</i>			-5.4	28.6
<i>Enhanced Index U.S. Equity Fund</i>		-4.6	-5.8	21.3
<i>Russell 1000</i>		-3.4	-4.8	21.6
<i>Active U.S. Equity Fund</i>		-1.9	-3.5	23.5
<i>Russell 1000</i>		-3.4	-4.8	21.6
<i>Russell 2000</i>		6.6	4.3	46.1
<b>International Stocks</b>				
<i>European Equity Fund (combined active &amp; indexed)</i>		-3.8	-4.5	35.2
<i>MSCI EUROPE net</i>		-2.9	-3.3	37.6
<i>EAFE Fund (combined active &amp; indexed)</i>		-0.8	-1.9	28.9
<i>MSCI EAFE Net</i>		-2.2	-2.5	40.8
<i>Asian Equity Fund</i>		3.4	2.4	49.3
<i>MSCI Pacific Net</i>		-0.5	-0.7	47.9
<b>Derivative Funds</b>				
<i>US Equity Derivatives Fund</i>				32.9
<i>S&amp;P 500</i>				20.5
<b>Real Estate</b>				
<i>Realpool</i>	8.3	7.8	6.9	7.4
<i>CPI + 4%</i>	6.0	6.5	6.3	4.7

**NOTE:** Private Placements and international real estate are not included as it is more appropriate to review returns on an internal rate of return basis and over the life of specific investments.



Left to right:

**Dr. Bruce Kennedy**, Executive Director, Pensions  
Public Sector Employers' Council Secretariat, Appointed by College  
Pension Board of Trustees

**Paul Martin**, Staff Representative, BC Government and Service Employees'  
Union, Appointed by Public Service Pension Board of Trustees  
MEMBER OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

**Chris Trumpy**, Chair, Deputy Minister, Ministry of Provincial Revenue  
Appointed by Minister of Finance  
MEMBER OF THE AUDIT COMMITTEE

**Joan Axford**, Secretary-Treasurer, School District No. 63 (Saanich),  
Appointed by Teachers' Pension Board of Trustees  
MEMBER OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

**Sid Fattedad**, Vice President, Finance & Information Services and Chief  
Financial Officer, Workers' Compensation Board of BC, Appointed by  
Minister of Finance  
MEMBER OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

**John Johnston**, Vice President, Human Resources, Vancouver Island Health  
Authority, Appointed by Municipal Pension Board of Trustees

## bcIMC Governance

*The Board of Directors is responsible for ensuring bcIMC has appropriate controls and accountabilities in place and that the Corporation provides satisfactory service to its clients.*

The Board is also required to authorize new pooled funds, to select and appoint bcIMC's CEO/CIO and auditors, and to approve the annual budget, including fees and staff compensation. Board committees operate as follows:

### The Audit Committee

consisting of two directors and an independent, outside appointee, oversees bcIMC's audit programs, financial management controls and financial reporting. Roger Clarke, retired Vice President, Finance and Chief Financial Officer of BC Rail, is the outside appointed member of the Audit Committee.

### The Human Resources and Compensation Committee

consisting of three directors, reviews matters relating to human resource strategies,

compensation philosophy, succession management, performance and associated payments under incentive plans, and proposed changes to terms and conditions of employment, human resource policies and benefit plan designs.

bcIMC Board governance practices are discussed on the following pages.



**Bob Elton**  
President and CEO, BC Hydro,  
Appointed by Minister  
of Finance  
MEMBER OF THE  
AUDIT COMMITTEE

## bcIMC Board Governance Practices

It is a priority for bcIMC's Board to maintain sound and effective corporate governance practices that enhance bcIMC's integrity and long term value. The Board and management continually review oversight structures, processes and controls, and make improvements to reflect industry best practices and regulatory guidelines. This commitment to meeting industry standards is seen in our support of the guidelines established by the Toronto Stock Exchange for effective corporate governance. The guidelines, and bcIMC's practice with respect to each, follows:

**1 The Board of Directors should explicitly assume responsibility for stewardship of the company:**

The bcIMC Board of Directors has a formal mandate with responsibility for the stewardship of the Corporation under the *Public Sector Pension Plans Act* (the "PSPPA"). For its part, management is responsible under the same legislation for implementation of all approved policies, business plans and capital expenditures, and is accountable to the Board for doing so.

**2 The majority of the Board should be unrelated (independent of management and free from conflict of interest):**

The Board is entirely constituted of directors who are independent of management.

**3 Disclose whether or not each Director is related, and how that conclusion was reached:**

Names and titles of the directors are regularly disclosed in bcIMC's annual report and bcIMC's website.

A description of current Board members can be found on page 24 of this report.

**4 The Board should appoint a committee of independent directors to appoint new directors:**

This practice is not applicable to bcIMC as appointments to the bcIMC Board is set out in PSPPA.

**5 The Board should implement a process for assessing the effectiveness of the Board as a whole, the Committees of the Board, and individual Directors:**

The Board has in place two annual self-evaluation processes. One is for the Board to evaluate its performance as a whole. The other is for each director to evaluate his or her own performance.

**6 Provide orientation and education programs for new Directors:**

Each new director is provided with an orientation program to help him or her become familiar with all aspects of bcIMC operations and individual responsibilities of Board members. External experts and staff specialists deliver this program.

**7 Every Board should examine its size and, with a view to effectiveness, consider reducing the Board size to improve decision-making:**

According to legislation, the Board must have seven directors. The relatively small size of the Board facilitates engagement and effective decision-making.

**8 The Board should review Directors' compensation to ensure that it adequately reflects responsibilities and risks:**

The PSPPA provides that bcIMC may pay remuneration to the Chair, directors and Board Committee members that is consistent with provincial Treasury Board guidelines. The guidelines have recently been updated by the government.

**9 Committees of the Board generally should be composed of independent and unrelated Directors:**

The two committees established by the Board are composed solely of directors that are independent of management. A description of current Board committee members can be found on page 24 of this annual report.

**10 Every Board should expressly assume responsibility for, or assign to a committee, the responsibility for developing the company's approach to corporate governance:**

PSPPA establishes a foundation for corporate governance, and bclMC's Board and management have made considerable effort to build on the legislative framework since the Corporation was established in November 1999.

**11 The Board, together with the CEO, should develop position descriptions for the Board and CEO; define limits to management's responsibilities; and approve corporate objectives that the CEO is responsible for meeting:**

The PSPPA sets out responsibilities for the Board and management of bclMC. Long term goals and strategies for bclMC are developed by management as part

of the Corporation's annual strategic planning process. Corporate objectives and the operating budget for the coming fiscal period require Board approval. The Board reviews performance quarterly against the objectives and budget targets.

**12 Every Board should implement structures and procedures to ensure that it can function independently of management:**

bclMC has a Chair separate from management, and the Board functions independently from management. This is ensured through the legislated composition and independence of the Board.

**13 Every Board should have an audit committee, consisting only of non-management directors who are financially literate, which has a clearly defined mandate and appropriate oversight:**

bclMC's Audit Committee, comprised solely of unrelated directors, has a clearly defined mandate determined by the Board. The three current members of the committee are all deemed by the Board to be financially literate and have accounting or related expertise that benefits the committee in carrying out

its responsibilities. The Audit Committee has one independent member who is not on the bclMC Board.

**14 Every Board should enable an individual director to engage an outside advisor in appropriate circumstances, at the expense of the company:**

Each director has the right of access to all relevant bclMC information and to the CEO/CIO and, subject to prior consultation with the Chair, may seek independent professional advice at bclMC's expense.





Investment  
Management  
Corporation

Location: 3rd Floor, 2940 Jutland Road, Victoria, BC, V8T 5K6  
Mailing Address: PO Box 9910, Stn Prov Govt, Victoria, BC V8W 9R1  
Telephone: (250) 356-0263 Facsimile: (250) 387-7874

Financial Statements  
March 31, 2004

#### Management's Responsibility for Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements of the British Columbia Investment Management Corporation (the "Corporation") rests with management. The financial statements, which by necessity include some amounts that are based on management's best estimates and judgements, are prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and present fairly the Corporation's financial position and results of operations. The financial statements have been reviewed and approved by the Corporation's Board of Directors.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records maintained. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

These financial statements have been examined by the Corporation's independent auditor, the Auditor General of British Columbia, and his report is presented herein.

A handwritten signature in dark ink, appearing to read 'D Pearce', written over a horizontal line.

Doug Pearce  
Chief Executive Officer  
Chief Investment Officer

A handwritten signature in dark ink, appearing to read 'Lynne Ronneseth', written over a horizontal line.

Lynne Ronneseth  
Vice President, Finance & Operations





## Report of the Auditor General of British Columbia

*To the Shareholder  
of the British Columbia Investment Management Corporation*

I have audited the balance sheet of the *British Columbia Investment Management Corporation* as at March 31, 2004 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Investment Management Corporation* as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 10, 2004*

*Wayne Strelloff, FCA  
Auditor General*

# Balance Sheet (in \$000s)

As at March 31, 2004

## ASSETS

### Current assets

Cash and short-term investments (note 5)

2004

2003

\$ 5,609

\$ 3,532

Investment services direct costs receivable (note 6)

18,554

13,060

Fees and other accounts receivable

1,571

1,913

Prepaid expenses

172

184

25,906

18,689

Organization costs

31

72

Capital assets (note 7)

780

811

\$ 26,717

\$ 19,572

## LIABILITIES AND EQUITY

### Current liabilities

Investment services direct costs payable (note 6)

\$ 16,744

\$ 12,953

Other accounts payable and accrued liabilities (note 8)

6,321

3,024

23,065

15,977

Long-term liabilities (note 8)

1,425

1,284

### Equity

Share capital (note 1)

-

-

Contributed surplus (note 9)

290

290

General reserve (note 10)

1,243

1,243

Retained earnings

694

778

2,227

2,311

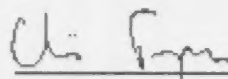
\$ 26,717

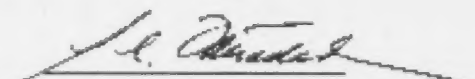
\$ 19,572

Commitments (note 12)

See accompanying notes to financial statements.

Approved on behalf of the Board:

  
Director

  
Director

# Statement of Operations and Retained Earnings (In \$000s)

For the year ended March 31, 2004

	2004	2003
<b>REVENUES</b>		
Funds management fees	\$ 15,632	\$ 14,369
Recoveries of investment services direct costs (note 6)	64,774	58,419
Other	132	97
<b>Total Revenues</b>	<u>\$ 80,538</u>	<u>\$ 72,885</u>
<b>EXPENSES</b>		
Investment services direct costs (note 6)	\$ 64,774	\$ 58,419
Salaries and benefits	11,229	10,208
Professional services	740	520
Systems operations	1,746	1,487
Insurance	512	415
Office and business	821	873
Rent	503	479
Amortization	247	200
Other	50	130
<b>Total Expenses</b>	<u>\$ 80,622</u>	<u>\$ 72,731</u>
<b>NET (LOSS) INCOME</b>	(84)	154
<b>RETAINED EARNINGS</b> - beginning of year	778	751
Transfer to general reserve (note 10)	-	(127)
<b>RETAINED EARNINGS</b> - end of year	<u><u>\$ 694</u></u>	<u><u>\$ 778</u></u>

See accompanying notes to financial statements.

# Statement of Cash Flows (in \$000s)

Continental Limited, Annual Report 1994/1995

	2004	2003
<b>CASH FLOW PROVIDED BY (used for):</b>		
<b>Operating activities</b>		
Net (loss) income for the year	\$ (84)	\$ 154
Items not involving cash		
Amortization	247	200
Cash flows from operations	163	354
Changes in non-cash working capital		
Accounts receivable	(5,152)	3,110
Prepaid expenses	12	(88)
Accounts payable and accrued liabilities	7,088	(3,280)
	<u>2,111</u>	<u>96</u>
<b>Investing activities</b>		
Capital assets	(175)	(138)
	<u>(175)</u>	<u>(138)</u>
<b>Financing activities</b>		
Long-term liabilities	141	655
	<u>141</u>	<u>655</u>
<b>INCREASE FOR THE YEAR</b>	2,077	613
<b>CASH AND SHORT-TERM INVESTMENTS - beginning of year</b>	<u>3,532</u>	<u>2,919</u>
<b>CASH AND SHORT-TERM INVESTMENTS - end of year</b>	<u>\$ 5,609</u>	<u>\$ 3,532</u>

See accompanying notes to financial statements.

## Notes to Financial Statements

(continued from page 10)

### 1. Authority and Share Capital

The British Columbia Investment Management Corporation (the "Corporation") was established as a corporation under section 16 of the *Public Sector Pension Plans Act*, S.B.C. 1999 c44 (the "Act"). The capital of the Corporation is one share with a par value of \$10. The share is issued and registered in the name of the Minister of Finance on behalf of the Province of British Columbia (the "Province").

### 2. Nature of Operations

On January 1, 2000 the Corporation assumed responsibility for the fund management services previously provided by the Office of the Chief Investment Officer, a division of the Ministry of Finance. In accordance with enabling legislation, the Corporation as an agent, can manage the assets of various public sector pension funds, the Province, provincial government bodies (Crown corporations and institutions) and publicly-administered trust funds.

The Corporation establishes companies for the sole purpose of managing specific investments in the course of administering assets on behalf of its clients.

The Corporation, as agent for the investments on behalf of its clients, holds the voting shares of 3536785 Canada Inc., 3536831 Canada Inc., Levrick Limited, 597858 B.C. Ltd., bclMC (WCBAF) Private Placement Investment Corporation and bclMC (WCBAF) International Real Estate Investment Corporation. However, these shares give the Corporation no right to receive distributions from these companies, whose only activity is holding, as nominee, investments for the Corporation's clients.

As an agent of the Crown, the Corporation is exempt from federal and provincial income taxes.

### 3. Assets under Administration

The estimated market value of assets managed by the Corporation as of March 31, 2004 was \$63 billion (2003: \$53 billion), \$47 billion (2003: \$39 billion) of which is administered on behalf of pension funds and \$16 billion (2003: \$14 billion) on behalf of various trust funds and other clients.

These assets may be invested in segregated investments, or be aggregated in one or more of the pooled investment portfolios

managed by the Corporation. The Corporation annually prepares separate audited financial statements for all pooled investment portfolios with more than one beneficial owner.

The financial statements of the pooled investment portfolios and segregated assets held in clients' accounts are not consolidated in the financial statements of the Corporation.

### 4. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements are as follows:

**Short-term Investments** – Short-term investments consist of units in the Corporation's Canadian Money Market Fund ST2 and the U.S. Money Market Fund ST3. U.S. dollar investments are translated at the year-end foreign exchange rate. Investments are recorded at the lower of cost or market value.

## Notes to Financial Statements

Approved March 11, 2005

**Organization Costs** – Organization costs incurred in establishing the Corporation are capitalized and amortized on a straight-line basis over five years.

**Capital Assets** – Assets with a cost greater than \$5,000 are recorded at cost less accumulated amortization. Software development costs, including labour and material costs for design, construction, testing, implementation and other related costs, are capitalized for business systems expected to be of continuing benefit to the Corporation.

Amortization is calculated on a straight-line basis over the estimated useful life, beginning in the quarter of acquisition, using the following rates:

Furniture, equipment	10 years
Mainframe, mini-computers, related software	5 years
Personal computer hardware peripherals, related software	3 years

Leasehold improvements are amortized on a straight-line basis over the initial lease term.

### Post-Employment Benefits

a) The Corporation and its employees contribute to the Public Service Pension Plan (the "Plan") in accordance with the *Public Sector Pension Plans Act*, S.B.C. 1999 c44. The British Columbia Pension Corporation administers the Plan, including payment of pension benefits to employees to whom the Act applies. The Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The most recent actuarial valuation as of March 31, 2002 has determined that the Plan is in a surplus position.

The cost of employee benefits under the Plan is the amount of pension contributions in the year. The employer's portion of pension contributions paid to the plan during the year was \$497,550 (2003: \$473,510).

b) Employees are also entitled to a retiring allowance, as provided for under their terms of employment. The Corporation annually estimates and accrues the future obligation for retiring allowances as employees render the services necessary to earn the benefit. As at March 31, 2004, the accrued liability for retiring allowances is recorded as \$312,700 (2003: \$232,900).

**Revenues** – Revenues are received from investments (including realized gains and losses), recoveries of investment services direct costs related to the pooled investment portfolios and segregated investments, and fees charged for funds management services.

Investment income is recorded on the accrual basis. Investment services direct cost recoveries are recorded on the accrual basis as the related costs are incurred. Fees are recorded to recover all cash outlays and accrued expenses, and any changes to the general reserve as directed by the Board.



## Notes to Financial Statements

March 31, 2004 (in \$'000)

### 5. Cash and Short-term Investments

(see Figure 5)

#### 6. Investment Services Direct Costs

In order to provide funds management services, the Corporation contracts with third parties for investment services, as well as custodial, legal, audit and other services. Where these costs can be identified as being incurred on behalf of a specific pooled investment portfolio or a segregated investment held by a client, the costs are recovered directly from that entity. These costs are shown as expenses and the recovery of those expenses as revenue in the Statement of Operations and Retained Earnings. The receivable balance reflects any amounts not yet recovered from these entities and the payable balance reflects the amounts accrued and owing to service providers.

(see Figure 6)

Figure 5. Cash and Short-term Investments

	2004 (\$'000)		2003 (\$'000)	
	Cost	Market	Cost	Market
Cash	41	41	51	51
Short-term Investments	5,568	5,575	3,481	3,485
	<u>5,609</u>	<u>5,616</u>	<u>3,532</u>	<u>3,536</u>

Figure 6. Investment Services Direct Costs

	2004 (\$'000)	2003 (\$'000)
Investment Services	55,555	51,271
Custodial	5,430	4,906
Legal, Audit, Other	3,789	2,242
	<u>64,774</u>	<u>58,419</u>

## Notes to Financial Statements

Continued from page 10

### 7. Capital Assets

(see Figure 7)

### 8. Long-term Liabilities

Long-term liabilities are comprised of accruals for the employee retiring allowance and the employee long-term incentive plan. The current portion included in other accounts payable and accrued liabilities is \$720,700 (2003: \$58,312).

### 9. Contributed Surplus

On January 1, 2000, at the commencement of the Corporation's operations, the Province transferred net assets of \$290,085 to the Corporation.

### 10. General Reserve

At the discretion of the Board, general reserves for future expenditures may be appropriated from retained earnings.

(see Figure 10)

Figure 7: Capital Assets  
(\$000)

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Furniture, equipment	309	110	199	229
Mainframe, mini-computers, related software	686	323	363	453
Personal computers, related software	17	17	—	4
Computer software under development	148	—	148	38
Leasehold improvements	177	107	70	87
	<u>1,337</u>	<u>557</u>	<u>780</u>	<u>811</u>

Figure 10: General Reserve

	2004 (\$000)	2003 (\$000)
Reserve - beginning of period	1,243	1,116
Transfer from retained earnings	—	127
Reserve - end of period	<u>1,243</u>	<u>1,243</u>

The Corporation is related to all Province of British Columbia ministries, agencies and Crown corporations through common ownership. Transactions with these entities are in the normal course of operations and are recorded at the exchange amounts.

The Corporation has entered into lease agreements for accommodation needs with original terms extending to October 2009 and three 5-year renewal options. The estimated cost for office rental and accommodation services for the next 5 years is:

	(\$'000)
2005 (part year)	722
2006	1,020
2007	1,020
2008	1,021
2009	1,021
2010 (part year)	595
	<b>5,399</b>

The Corporation has entered into a contractual agreement for a licensing right to use computer software with an original term ending in June 2006. The estimated cost for the remaining term is \$446,300.

The Corporation's financial instruments consist of cash, short-term investments, accounts receivable and accounts payable. In management's opinion the Corporation is not exposed to significant risks arising from these financial instruments as the fair values of these financial instruments approximate their carrying values.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts on the Balance Sheet and Statement of Operations and Retained Earnings. The more subjective of such estimates are investment services direct costs, post-employment benefit accruals and employee incentive plan accruals. Management believes its estimates to be appropriate, however, actual results could differ from these estimates and these differences would be reflected in applicable future periods.

Certain 2003 comparative figures have been reclassified to conform to the current year's presentation.



*Chris Beauchemin was presented, on behalf of bclMC, with a Spirit Award for exceptional fund raising during the 2003 United Way Campaign.*

## **Our Community, Industry and Environmental Involvement**

bclMC is committed to making a positive difference in the community, the industry and the environment in which we live and operate. Over the past three years, for example, we have been involved in the community support programs offered by the Burnside Gorge Community Centre. bclMC is also a major supporter of the United Way and our employees run an annual campaign that earned bclMC a

Spirit Award in 2003 for our exceptional fund raising effort.

bclMC is an active participant in industry and professional associations such as the Pacific Pension Institute (PPI) based in San Francisco, the Pension Investment Association of Canada (PIAC), and the Forum for Women Entrepreneurs, an education and networking venue for women entrepreneurs and investors. Many of our employees also contribute time and service to the Victoria and Vancouver Societies of Financial Analysts and other professional organizations.

bclMC acknowledges its environmental responsibilities as a corporate citizen and we undertake initiatives to minimize waste and reduce energy consumption, both at our Victoria office and at our mortgage and real estate investment properties. Last year, bclMC shared in a commendation from the federal government in recognition of the substantial energy efficiencies introduced to our premier office tower in Edmonton, Alberta.



*Commerce Place in Edmonton, Alberta is a commercial real estate property in which bclMC has an ownership interest. bclMC shared in a 2003 Energy Innovators Initiative Award from Natural Resources Canada for the conservation effort at Commerce Place.*

## Our Team 2003-2004

In Memoriam: Our colleague and friend, Irv Marus 1936-2003

Doug Pearce

*Chief Executive Officer*

*Chief Investment Officer*

Lindsay Vernon

### Equity Investments

Bryan Thomson

*Vice President*

Sheri Bryce

Jeff Constantinescu

Lucy Edwards

Allen Gage

Cindy Guertin

Mike Harvey

Marcy King

Yilei Liang

Patrick Reddy

Mary Spurr

Charles Volkovskis

### Fixed Income

David Thom

*Vice President*

Justin Aylward

Steve Barr

Chris Beauchemin

Peter McCrodan

Randy Storey

### Mortgages

Dean Atkins

*Vice President*

Carol Aston

Margot Gunn

Kevin Weir

### Real Estate

Chuck Swanson

*Vice President*

Owen Fisher

Brian Foran

Vivian Lai

Chris Lee

Cari Taylor

Pip White

### Private Placements

Neil Muth

*Vice President*

Larisa Anderson

Kelly Chaplin

Richard Dinneny

Bob Kennedy

Laura Legg

Randall Mullan

Rachel Sexton

Lincoln Webb

### Policy and Research

Daryl Jones

*Vice President*

Millie Chow

Rebecca Copus

Karen Gauvin

Wael Helal

Lynn Hannah

Chris Lawless

Marj MacKenzie

Kathy Marshall

Philippe Monier

Richard Parrish

### Trade Management & Compliance

Kim Thornber

*Vice President*

Debbie Atkins

Vicki Aune

Lea Cyr

Kathryn Ford

Marlene Gurney

Jennifer Jonker

Shauna Lukaitis

Connie McInnis

Michelle Menard

Angela Miller

Barb Pilon

Alison Walker

### Finance & Operations

Lynne Ronneseth

*Vice President*

Chris Allen

Dan Bailer

Karen Blakely

Monique Brosseau

John Caiger

Henry Choy

John de Boer

Donna Desautels

Brian Dunn

Susan Enefer

David Eng

Kate FitzPatrick

Janet Fraser

Keith Harris

Jennifer Herberholz

Debbie Howell

Carol Iverson

Lisa Jeffery

David Johnson

Matthew Kaeshammer

David Kayal

Thomas Lim

Jennifer Louis

Cathy MacArthur

Don McPherson

Mike Medland

Andrea Petillion

Marshall Petrie

Larry Swanston

Shelly Toews

Don Wong

### Legal Affairs & General Counsel

Robert des Trois Maisons

*Vice President*

Terry Trace

### External Legal Advisors

Lawson Lundell

McCullough O'Connor Irwin

### Custodian

RBC Global Services

### Auditor

Auditor General  
of British Columbia



Investment  
Management  
Corporation

*Courier Address*  
3rd floor, 2940 Jutland Road  
Victoria, BC V8T 5K6

*Mailing Address*  
PO Box 9910, Stn Prov Govt  
Victoria, BC V8W 9R1

*Telephone* 250 356-0263  
*Facsimile* 250 387-7874  
*Web* [www.bcimc.com](http://www.bcimc.com)